

# Indiana Board for Depositories

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Semi-Annual Report to the State Budget Committee

7/1/2013

In the 2010 legislative session, the Indiana General Assembly passed HEA 1336 that gave the Indiana Board for Depositories (IBFD) the tools to be more strategic in the safekeeping and prompt payment of public funds held in Indiana depositories. Until this time, the primary tool in fulfilling this mission was the maintenance and operation of the Public Deposit Insurance Fund (PDIF) which could be drawn upon to pay claims of those public funds held by a failed depository that were not covered by a federal deposit insurance program. Included in this legislation was the requirement for the IBFD to prepare a report each June and December on its activities and the status of the PDIF, and for the IBFD chairperson or designee to present the report to the budget committee at a public hearing. The following is the report for January through June 2013.

### Recent Activities

The collateralization system became operational in May 2011. It is a tiered system based on the financial profile ratings of the Indiana depositories and the amount of non-federal insured public deposits held. Indiana depositories have the option of pledging marketable government securities or a letter of credit from the Federal Home Loan Bank. Approximately half of the depositories required to collateralize use letters of credit to satisfy all or a portion of their pledging requirements.

The average daily balance of net public funds (after deducting for FDIC coverage) held by the 174 approved depositories was approximately \$12.5 billion as of March 31, 2013, up just under \$2 billion from the previous report.

The most recent financial profile ratings reflect a continuing improvement in the financial health of Indiana depositories. Since September 2010 the average rating for eligible Indiana depositories has increased from 43 to 63 with the most recent ratings as of March 2013. Based on these current ratings and the reported average net public funds held as of March 31, 2013, 6 depositories are required to pledge and deliver collateral at 100% which covers approximately 0.8% of the total average daily balance; 12 depositories which hold 2.3% of funds are required to pledge at 50% which covers approximately 1.2% of the public funds; and 156 depositories are not required to pledge collateral. When voluntary 100% collateralization is factored in, approximately \$2.5 billion or 20.1% of the average daily balance of public funds held by Indiana depositories is secured by the collateralization program, an increase from 16% in the last report.

The primary factor in the increase in collateral is that the institutions which have elected to voluntarily collateralize are holding more deposits subject to this requirement. This is most likely the result of the expiration of the federal Transaction Account Guarantee (TAG) program in which non-interest-bearing accounts receive full federal insurance. Collateralization requirements are based on the level of deposits net of federal insurance. TAG expired at the end of 2012.

Over the last year, the Board for Depositories and Aon Risk Solutions completed the study of the collateralization program. Past studies had focused primarily on the sufficiency of the cash fund balance to satisfy claims under various risk simulation scenarios. The final report was presented to the Board at its June meeting and is available upon request.

### Fund Status

As a supplement to the collateralization program summarized above, the PDIF had a fund balance of \$300 million as of July 1, 2013. The fund balance includes the \$50 million receivable from the State of Indiana. The \$5 million bond

purchase agreement with the Indiana Housing and Community Development Authority has been repaid and a \$5 million payment toward retiring the receivable from the State of Indiana is expected in July 2013. When the available PDIF balance is added to the collateralization program, the coverage of the security is increased from 21.3% to 22.5% of the average daily balance of public funds held by depositories.

There were no draws on the PDIF in the last six months.

Based on the changes in law that took effect July 1, 2013 the fund will no longer pay any expenses for the Indiana Education Savings Authority, and will no longer transfer interest earnings to the Police and Firefighters Pension Fund.

The following pages provide graphs of the level of collateralization since the inception of the collateralization program.

## Appendix-Collateral Program Data

